Gold and silver prices ended mixed this week, with gold finishing lower by $6 (0.4%) and with silver ending a slim penny higher. Both metals hover barely above multi-month lows. Silver's slight relative outperformance this week caused the silver/gold price ratio to tighten in by a fraction to 86.2 to 1; a level of extreme undervaluation for silver not supported by anything other than the overall artificiality of paper futures contract positioning on the COMEX.

The trading feature for the week was the quite subdued price volatility as the first notice of delivery day approaches on next Friday, Nov 29. Next week will feature the US holiday of Thanksgiving on Thursday, so the heavy rollover of positions from the December COMEX contracts must, essentially, be largely completed by Wednesday. The open interest in the December gold and silver contracts was exceptionally large, meaning a greater number of contracts must be rolled over; but this also allows for some potential drama and surprises.

Having observed COMEX deliveries for more decades than I like to admit (to myself), I've developed the impression that prices are somehow kept "subdued" as the bulk of the contracts are rolled into more deferred months (into February for gold and March for silver for the December contracts). I can't prove it, of course, but my sense is usually that the commercials desire to see no price fireworks until the bulk of the contracts are rolled over, so as not to tempt any speculative longs to hang around into the delivery period.

Over the past few years, I've focused more on JPMorgan's actions in the delivery drama, as I'm convinced the bank has a stranglehold on gold and silver. As I have written all along, I believe JPMorgan owns or controls 80% (250 million oz) of the 316 million total oz in the COMEX warehouses, the world's second largest visible

stockpile of silver (behind the SLV). It's different in gold, where the total COMEX gold warehouse inventories (8.5 million oz) is but a tiny fraction of the nearly 6 billion gold oz in existence; but there have been recent signs of physical tightness in gold. While there is no way to predict what, if anything, JPMorgan will do in the December deliveries, that will be what I will look for first.

There were some surprises, as well as confirmations in yesterday's Commitments of Traders (COT) report, so I'll jump to that straightaway. Not much to report with the turnover or physical movement of metal in the COMEX silver warehouses, as the weekly turnover amounted to just over 3.6 million oz. Total inventories rose by 0.6 million oz to 316.2 million oz, still about a million oz shy of the all-time record of a month or so ago. If anything, I've been expecting more physical inflow as first delivery day approaches. No change in the JPMorgan COMEX warehouse, still stuck at 161.1 million oz for a month.

The biggest surprise in yesterday's new COT report was the relatively large amount of managed money buying and commercial selling in silver and particularly in gold, given what was relatively subdued trading during the reporting week. Yes, gold ended the reporting week around $20 higher and silver by 40 cents, but no upward penetrations of the moving averages occurred and that included the 100, 50 and every moving average down to the 13 day moving average.

It's not just this week's managed money buying that surprised me, but the overall resistance to selling that these traders have exhibited for months. Let me run through this week's report before more fully expounding on a very curious set of broader circumstances.

This reporting week in COMEX gold futures, the commercials increased their total

net short position by 17,600 contracts to 319,100 contracts. This is the largest (most bearish) commercial short position in two months, since the all-time record commercial short position of 345,100 contracts of Sep 24, when the price of gold was $1540 and still yet to downwardly penetrate it’s 50 day moving average. That the total commercial net short position is only down 26,000 contracts after as much as a $100 price decline and consistent multi-moving average penetrations to the downside is remarkable, as I’ll discuss shortly.

This week, the biggest gold commercial shorts fully participated in the commercial selling, with the big 8 accounting for just under 10,000 contracts of the total commercial selling. I consider JPMorgan as a reluctant participant on the short side this week and would peg its gold short position as close to 30,000 contracts, partly as a result of this week’s action and partly out of fear I may have pegged it as too low last week at 25,000 contracts.

On the managed money side, these traders bought even more than the commercials sold, in buying 19,758 net gold contracts, comprised of the buying of 12,363 new long contracts and the buyback and covering of 7,395 short contracts. The resultant managed money net long position of 195,199 contracts (221,795 longs versus 26,596 shorts) must be considered as extremely bearish in historical conventional terms as the reciprocal commercial short position.

In COMEX silver futures, the commercials increased their total net short position by 4700 contracts to 66,500 contracts. While obviously larger than last week’s level, this week’s commercial short position is the second lowest level in 3 months, re-affirming the relative less bearish extreme the silver market structure has been in compared to gold. Even though there was a decrease in the net short position in the

Producer/Merchant commercial category (where JPM resides) of close to 1800 contracts, I'd continue to peg JPMorgan's silver short position at 5000 contracts, feeling I may have been too low last week.

The managed money silver traders, as was the case in gold, bought more net contracts than the commercials sold, as these traders bought 8268 contracts, consisting of the buying of 1217 new long contracts and the rather large covering of 7,051 short contracts. The resultant net managed money long position of 39,845 contracts (73,977 longs versus 34,032 shorts) must be considered bearish, but not excessively so in conventional historical terms.

Finally, the concentrated long position of the 4 largest traders in both silver and gold increased this week, by a modest 350 contracts in silver (to 53,431 contracts) and by a more impressive 4800 contract in gold (to 133,054 contracts), the most in gold since I began following this metric recently. Thus, my concentrated long position (whale) premise is still valid.

The standout features I'd like to discuss is not so much what transpired in this week's report, but what has occurred on a slightly longer time frame. First is what I would describe as the curious behavior of the managed money traders in both gold and silver over the past few weeks and months. The managed money traders certainly behaved as expected when the rally began in late May/early June this year, in that these traders bought more than 200,000 net gold contracts (20 million oz) on the near $300 rally and 100,000 net silver contracts (500 million oz) on the $5 silver price rally. I won't bore you with the explanation how this buying drove the price rallies, as that should be self-evident.

Instead, what I find astounding is how little managed money selling has occurred as

gold and silver prices have declined and as all the important moving averages (save the 200 day ma) have been decisively penetrated to the downside. In gold, less than 40,000 contracts (20%) of the more than 200,000 contracts purchased have been sold and in silver, the same 20% (20,000 contracts) of the 100,000 net contracts bought have been sold, even though silver prices have declined by as much as $3 (60%) from the Sep highs. What gives – don't the managed money traders know they are supposed to have sold much more aggressively than they have until now?

In looking for answers to the question of why haven't the managed money traders sold much more than they have in the past, the potential answers seem to reside in either a reluctance of the managed money traders to sell as usual or perhaps the commercials (ex JPM) not willing to buy at prices that would result in realized losses for the first time ever. A conventional interpretation of the COT market structure premise would point to the strong likelihood that the managed money traders will still sell on lower prices, just as they always have. I can't rule that outcome out. But neither can I rule out the managed money traders not selling aggressively and denying the big commercial shorts (not JPM) the opportunity to escape large losses.

This has been the open question for months, namely, who will cave – the managed money traders or the big commercial shorts? The big commercial shorts have never, ever caved in a rush to cover to the upside collectively, and that failure to ever buyback shorts at a loss is the prima facie evidence that silver and gold prices have been manipulated. If you accept the premise that the manipulation must end someday, you must accept that the big commercial shorts will one day not add to shorts and might, in fact, have to buy back shorts at a loss. (If you feel the manipulation will never end, you really shouldn't be invested in silver or gold).

I still hold out the strong likelihood that if the big commercial shorts get the managed money traders to sell yet again, it will be the last such selloff. But that final selloff is still an open question, as is the question of why haven't the managed money traders not sold much more to this point.

Then there is the near-unprecedented divergent behavior in the commercial community. In addition to the fact that there has been relatively little managed money selling and commercial buying on the price declines that commenced since September, there is a more recent oddity in the composition of what little commercial buying has occurred. Usually and as I have intoned over the years, the commercials operated as collusive Three Musketeers, all for one and one for all in battling the managed money traders. But that no longer appears to be the case. Simply put, since the COT report of Oct 22 (four weeks ago), all the net commercial buying that has occurred has occurred in the Producer/Merchant category, with no net buying occurring in the other commercial category, the Swap Dealer category. Again, JPMorgan is included in the Producer/Merchant category.

Admittedly, I'm the originator and practically sole proponent of the JPMorgan will double cross the other big commercial shorts premise, and as such, I naturally look for the data that will support (or negate) my premise. The actual data seems to emphatically confirm the JPM double cross premise. This is something you can verify by perusing past COT long form futures only disaggregated reports, readily available on the CFTC main COT page. (I will use rounded numbers in order to keep it simple).

https://www.cftc.gov/MarketReports/CommitmentsofTraders/index.htm

In the disaggregated silver futures only report of Oct 22, there was a net short position in the Producer/Merchant category of 60,000 contracts (gross shorts minus

gross longs) and a net short position in the Swap Dealer category of nearly 12,000 contracts. In the just-released COT report of Nov 19, the net short position in the Producer/Merchant category was 43,500 contracts (a reduction of 16,500 contracts), while the net short position in the Swap Dealer category had increased to 23,000 contracts (an increase of 11,000 contracts). Thus, the swing (or change) in the number of net contracts between the two categories was 27,500 contracts – even though the change in the total commercial net short position from Oct 22 was only 5500 contracts.

In the disaggregated gold futures only report of Oct 22, there was a net short position in the Producer/Merchant category of 145,000 contracts and a net short position in the Swap Dealers category of 150,000 contracts. In the COT report for Nov 19, the net short position in the Producer/Merchant category was just over 127,000 contracts (a reduction of 18,000 contracts from Oct 22), while the net short position in the Swap Dealers category was 192,000 contracts (an increase of 42,000 contracts). Thus, the swing (or change) in the number of net contracts between the two categories was 60,000 contracts – eve though the change in the total commercial net short position was only 24,000 contracts.

Interestingly, despite the remarkable juxtapositions within the commercial categories and small relative total net commercial changes, the changes in the net managed money positions in both silver and gold were even smaller over the past 4 weeks, making the commercial versus commercial struggle even more blatant.

What these figures show is that there has been a large disproportionate change in behavior within the two commercial categories over the past four reporting weeks. Had it been reversed and it was the Swap Dealers doing the buying and not the

Producer/Merchant category, I would have acknowledged this and likely been forced to drop my JPMorgan double cross premise. (By the way, don't get confused, there are no real producers (miners) in the Producer/Merchant category – that's a misnomer – all the traders are banks and financial institutions).

The actual data from the COT reports over the past 4 weeks indicate that there has been large disproportionate relative buying from someone within the Producer/Merchant category in both silver and gold, while there has been selling in the Swap Dealer category, particularly large in gold. If the "someone" in the Producer/Merchant category isn't JPMorgan, then I'm a monkey's uncle. Please let me hear from you if this is not clear (It's still my responsibility to fully explain all that I allege).

In simple terms, this is more conclusive proof that JPMorgan has been on an absolute and relative buying binge over the past month and the other big commercials have been selling instead. If you go back and review what I had pegged JPMorgan as holding in silver and gold short positions on a weekly basis, the data should track closely. All told, I'd estimate that JPMorgan has bought back between 15,000 to 20,000 net silver shorts (75 to 100 million oz) and around 25,000 net gold shorts (2.5 million oz) over the past 4 reporting weeks.

Remember, the quantities of COMEX short contracts that JPMorgan has bought over the past month is far greater than any equivalent physical quantities it would have been able to purchase over a comparable time. The biggest bang for the buck always comes from COMEX contracts within a short period of time.

More difficult to predict, of course, is what comes next in the short term. The equation remains the same. If the big commercial shorts are able to snooker the

managed money traders into selling significant quantities of gold and silver contracts ahead, JPMorgan will most assuredly participate in a commercial buyback feast of a managed money salmon selling run and further greatly improve its own prospects on the next and likely great rally. If the managed money trades continue to refuse to sell and the big commercial shorts are forced to buyback to the upside for the very first time, JPMorgan will have to be content to make the very many tens of billions of dollars it stands to make on its 900 million silver oz and 25 million gold oz physical position. Yeah, JPMorgan can't lose, no matter what and on top of that, it has the Justice Department and CFTC in its back pocket.

Therefore, I find the details under the hood of the COT report(s) to be more compelling than the headline changes. Unfortunately, while the details are compelling and overwhelmingly bullish on an eventual basis, there is still no way of knowing where we go in the very short term. All we can do is prepare for a true blastoff in price, either forthwith or after one last price jiggle to the downside.

As far as the financial scoreboard for the 7 big shorts in silver and gold, the $6 decline in gold prices this week reduced their open and unrealized losses by $150 million, putting the combined loss at just over $2.1 billion.

Ted Butler

November 23, 2019

Silver – $16.96 (200 day ma – $16.17, 50 day ma – $17.58)

Gold – $1462 (200 day ma – $1400, 50 day ma – $1494)